



BANK OF CANADA  
BANQUE DU CANADA

# Business Outlook Survey

Results of the Summer 2014 Survey | Vol. 11.2 | 7 July 2014

*The summer Business Outlook Survey continues to offer some encouraging signs for the economic outlook, although lingering uncertainty amid intense competition still hinders the pace of growth.*

## Overview

- Overall, the outlook of businesses has not changed materially from the spring survey. While responses suggest a more modest improvement in past sales activity, expectations for future sales growth remain positive, and there are indications that business sentiment regarding exports is gradually firming.
- Expectations for U.S. economic growth continue to strengthen, and orders from domestic and international customers show improvement from a year ago. The balance of opinion on investment in machinery and equipment remains firmly positive, although investment plans are tied primarily to upgrading or replacing existing equipment over the next 12 months. Signs of more robust growth in foreign demand over the near to medium term are leading some exporters to favour investments with a longer-term strategic focus.
- Fewer firms anticipate difficulty meeting an unexpected increase in demand, and reports of labour shortages are little changed. On balance, firms expect input prices to rise at a somewhat slower pace than over the past 12 months as upward pressure from the recent depreciation of the Canadian dollar gradually dissipates. Strong competition continues to restrain expectations for output prices. Inflation expectations are unchanged and remain concentrated in the bottom half of the Bank's inflation-control range.
- The balance of opinion on credit conditions moved more strongly into easing territory.

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The *Business Outlook Survey* summarizes interviews conducted by the Bank's regional offices with the senior management of about 100 firms selected in accordance with the composition of Canada's gross domestic product. The summer 2014 survey was conducted from 20 May to 12 June 2014. The balance of opinion can vary between +100 and -100. Percentages may not add to 100 because of rounding. Additional information on the survey and its content is available on the Bank of Canada's website. The survey results summarize opinions expressed by the respondents and do not necessarily reflect the views of the Bank of Canada.

## Business Activity

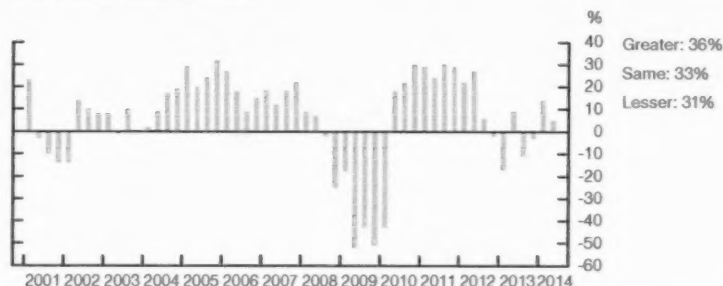
After turning positive in the spring survey, the balance of opinion on past sales growth has eased (Chart 1), suggesting a more modest improvement in sales activity over the past 12 months. While reports of increases in past sales growth were less widespread, fewer firms cited outright declines in sales volumes relative to recent surveys. The balance of opinion on future sales growth remains positive and little changed (Chart 2), as firms continue to expect an increase in sales growth over the next 12 months.

Among firms with international sales, recent indicators of future sales momentum continue to improve compared with a year ago. Firms expect a further strengthening of the U.S. economy, and some businesses note that the lagged effects of the depreciation of the Canadian dollar are also supporting sales expectations. Firms selling to the domestic market remain hopeful that sales growth will improve, owing in part to their efforts to increase market share. Overall, however, competitive conditions remain challenging, and many firms have yet to see signs of a notable and sustained strengthening in demand.

**Chart 1: Firms indicate a modest improvement in sales growth over the past 12 months...**

Balance of opinion<sup>a</sup>

Over the past 12 months, did your firm's sales volume increase at a greater, lesser or the same rate as over the previous 12 months?

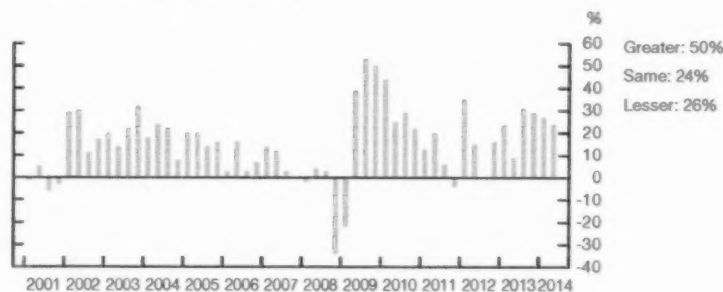


a. Percentage of firms reporting faster growth minus the percentage reporting slower growth

**Chart 2: ...and continue to expect an improvement over the next 12 months**

Balance of opinion<sup>a</sup>

Over the next 12 months, is your firm's sales volume expected to increase at a greater, lesser or the same rate as over the past 12 months?



a. Percentage of firms expecting faster growth minus the percentage expecting slower growth

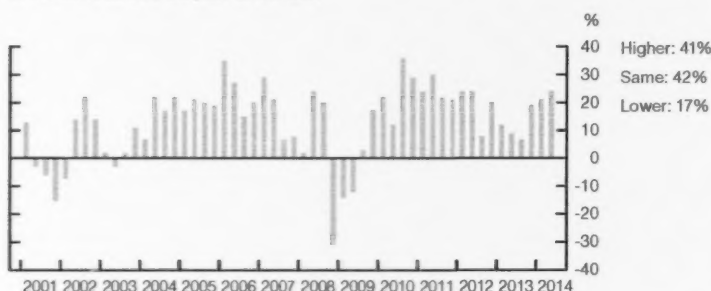
The balance of opinion on investment in machinery and equipment (M&E) continues to point to an increase in investment over the next 12 months (Chart 3). These plans are tied mainly to upgrading or replacing existing equipment, often following a lack of investment over the recent past. Exporters that foresee more robust growth in foreign demand over the near to medium term are considering investment projects that target longer-term export capacity or that would help to improve competitiveness. However, most firms are focusing on projects that will provide incremental gains in efficiency over the near term as they await more widespread indications of improving demand.

Intentions to increase employment are positive but less widespread in the summer survey (Chart 4), following higher readings in the winter and spring surveys. Smaller firms are more likely to be planning additions to their workforces.

**Chart 3: Firms plan to increase investment over the next 12 months, focusing mainly on upgrading or replacing existing equipment**

Balance of opinion<sup>a</sup>

Over the next 12 months, is your firm's investment spending on M&E expected to be higher, lower or the same as over the past 12 months?

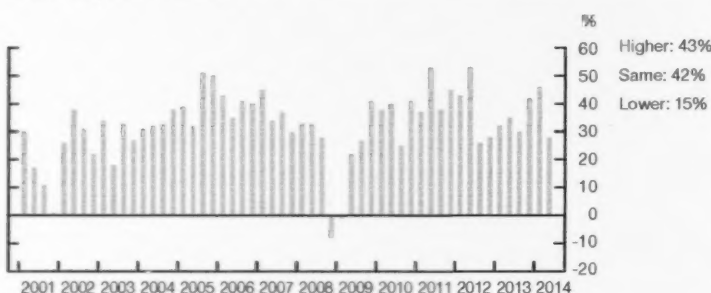


a. Percentage of firms expecting higher investment minus the percentage expecting lower investment

**Chart 4: Intentions to increase employment are positive but less widespread**

Balance of opinion<sup>a</sup>

Over the next 12 months, is your firm's level of employment expected to be higher, lower or the same as over the past 12 months?



a. Percentage of firms expecting higher levels of employment minus the percentage expecting lower levels

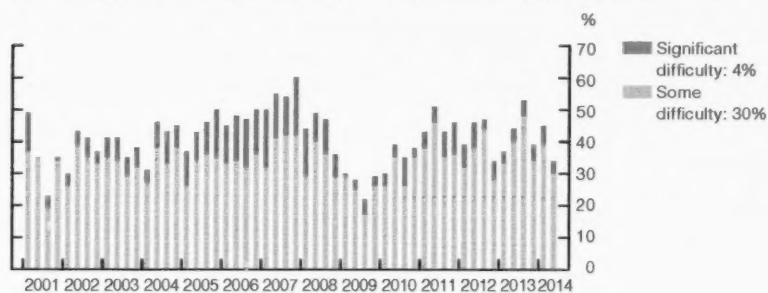
## Pressures on Production Capacity

Fewer firms expect that they would have difficulty meeting an unanticipated increase in demand (Chart 5). The pickup in sales activity anticipated in recent surveys has been slow to materialize, and firms have been making shorter-term investments to better utilize and upgrade their existing capital. A number of businesses believe that they have sufficient staffing and capital to meet any unanticipated demand in the near term, or that they could find additional labour as required.

The percentage of firms reporting that labour shortages are restricting their ability to meet demand is little changed from the spring survey (Chart 6). Those citing labour shortages were typically located in Western Canada and, as in recent surveys, did so mostly in relation to hiring for a specific position, skill set or region. Overall, firms have not seen any change in the intensity of labour shortages from 12 months ago.

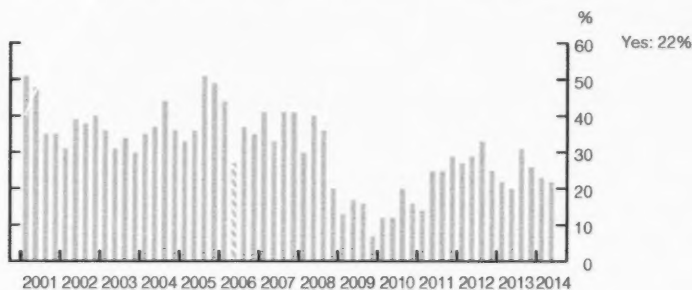
**Chart 5: Fewer firms anticipate difficulty meeting an unexpected increase in demand...**

How would you rate the current ability of your firm to meet an unexpected increase in demand?



**Chart 6: ...and reports of firms facing labour shortages are little changed**

Does your firm face any shortages of labour that restrict your ability to meet demand?



/// The summer 2006 results are not strictly comparable with those of the other surveys, owing to a difference in the interview process for that survey.

## Prices and Inflation

The balance of opinion on input price inflation has turned slightly negative following a sharp rise in the spring survey (Chart 7). Many firms anticipate that input prices will increase at the same rate over the next 12 months, as the effects of the depreciation of the Canadian dollar in the past 12 months filter through to the cost of their imports. A number of firms have already experienced these adjustments and therefore expect input prices to increase at a lesser rate over the next 12 months. Overall, businesses anticipate little change in input cost pressures from domestic sources.

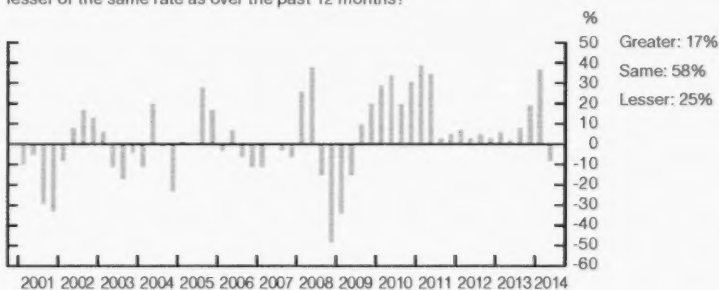
While remaining positive, the balance of opinion on output price inflation fell slightly, as more firms anticipate that output prices will increase at a similar rate over the next 12 months (Chart 8). Firms generally expect that strong domestic and international competition will restrain their ability to raise prices.

Expectations for inflation over the next two years are little changed from the spring survey (Chart 9). Most firms expect inflation to be within the Bank's 1 to 3 per cent inflation-control range, and almost two-thirds of firms expect inflation to be in the bottom half of that range. Tepid domestic demand and intense competition continue to moderate firms' expectations for future inflation.

### Chart 7: On balance, firms expect input prices to rise at a somewhat slower pace as upward pressure from the lower Canadian dollar gradually dissipates...

Balance of opinion<sup>a</sup>

Over the next 12 months, are prices of products/services purchased expected to increase at a greater, lesser or the same rate as over the past 12 months?

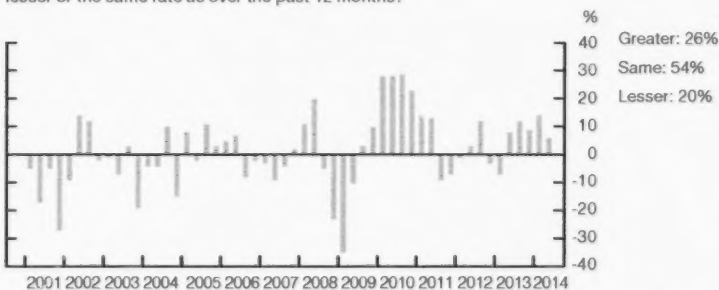


a. Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

### Chart 8: ...and strong competition is expected to continue to restrain increases in output prices

Balance of opinion<sup>a</sup>

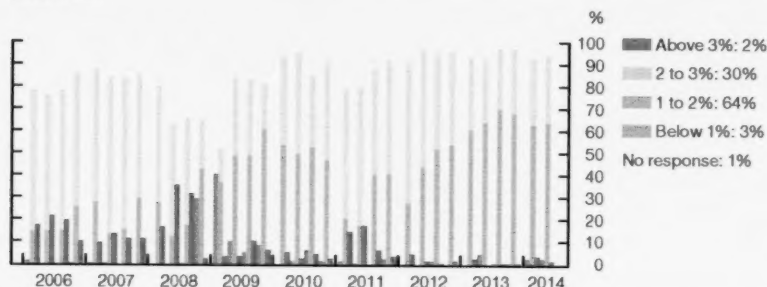
Over the next 12 months, are prices of products/services sold expected to increase at a greater, lesser or the same rate as over the past 12 months?



a. Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

**Chart 9: Inflation expectations remain concentrated within the Bank's inflation-control range**

Over the next two years, what do you expect the annual rate of inflation to be, based on the consumer price index?

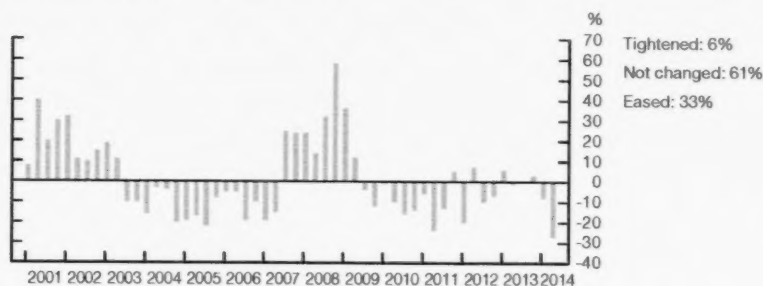
**Credit Conditions**

The balance of opinion on credit conditions points more strongly to an easing (Chart 10), as firms with solid financial positions reported being offered more favourable borrowing rates, terms and conditions over the past three months. Most businesses characterize credit as easy or relatively easy to obtain.

**Chart 10: Businesses report a further easing in credit conditions over the past three months**

Balance of opinion<sup>a</sup>

Over the past three months, how have the terms and conditions for obtaining financing changed (compared with the previous three months)?



a. Percentage of firms reporting tightened minus the percentage reporting eased. For this question, the balance of opinion excludes firms that responded "not applicable."

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